

Doing Business in Uzbekistan

BAKER & MCKENZIE



2003

**Doing Business
in Uzbekistan**

BAKER & MCKENZIE

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PREFACE

Baker & McKenzie is an international law firm with 66 offices in 36 countries. We have been active in Uzbekistan since 1996, when we opened a project office in Tashkent. Today our work includes a full range of legal services for foreign investors doing business in Uzbekistan. It should be noted that Baker & McKenzie now has the largest legal practice in Central Asia and the Caucasus.

Since gaining its independence in 1991, Uzbekistan has adopted new laws at a rapid pace. It remains a country in transition and its legal system continues to develop. Therefore, we have prepared *Doing Business in Uzbekistan* as a general guide for those companies or persons considering an investment in Uzbekistan. As the legal landscape continues to change frequently, this document should be taken as a basic guideline intended to assist investors in understanding Uzbekistan's overall investment climate and cannot be relied upon as legal advice in relation to any transaction or as a substitute to seeking specific legal advice.

The information herein is as of the date below. We will be happy to provide you with updates on this information or to provide you with further information regarding a specific industry or area of Uzbek law in which you may have a particular interest.

Baker & McKenzie
31 January 2003

1. UZBEKISTAN – AN OVERVIEW

1.1 Geography

Uzbekistan is the geographic, economic and cultural heart of Central Asia. With over 25 million people, Uzbekistan is by far the most populous of the five Central Asian republics of the former Soviet Union. With 2.2 million people, Tashkent, Uzbekistan's capital, is nearly twice the size of any other city in Central Asia. Lying on the ancient Silk Road between Europe and the Far East, the cities of Samarkand, Bukhara, and Khiva have been centers of commerce and trade for centuries and have undergone revivals since the dissolution of the Soviet Union. The legendary Uzbek warrior Amir Timur (Tamerlane) conquered vast areas of Asia during the 15th century; every year thousands of tourists visit the famous tile-clad mosques, madrasas and other monuments built during his reign.

Though not the largest Central Asian country in size, Uzbekistan is still larger than the combined area of the United Kingdom, Belgium, Denmark, Switzerland and Austria. It is the only country to border each of the other four Central Asian Republics, as well as Afghanistan.

Western and central Uzbekistan are extremely dry and arid. Due to years of excessive irrigation and ecological mismanagement during the Soviet era, the Aral Sea basin shared with Kazakhstan has shrunk and lost much of its natural wealth. The region around Tashkent and the rich Fergana Valley to the east enjoy relatively temperate climates and are rich centers of agriculture, supplying fruits, vegetables, dairy products and other foodstuffs throughout Central Asia and neighboring countries.

1.2 General Data

<i>Land area</i>	447,400 square km, of which 20% is arable	
<i>Population</i>	24.7 million (2000 World Bank estimate)	
<i>Major cities</i>	<i>Population in thousands in early 2000</i>	
	Tashkent	2,150
	Samarkand	365
	Namangan	363

	Andizhan	320
	Bukhara	238
<i>Climate</i>	Continental desert	
<i>Languages</i>	Uzbek, a Turkic language, is the state language of Uzbekistan and certain official documents filed with the government must be in Uzbek. However, Russian is widely spoken, especially in the major cities, and most documents can be submitted in Russian.	
<i>Weights and measures</i>	Metric system	
<i>Currency</i>	The Soum is the official currency of Uzbekistan. The official rate on 31 January 2003 was 960.38 Soum to USD 1; the OTC exchange rate was 960.38 Soum to USD 1 and the black-market (bazaar) rate was 1180-1220 Soum to USD 1.	
<i>Public holidays</i>	1 January	New Year
	8 March	Women's Day
	21 March	Navruz (Persian New Year)
	9 May	Memory and Honor Day
	1 September	Independence Day
	1 October	Teacher's Day
	8 December	Constitution Day
	date varies	Id-Al Fitr (religious holiday)
	date varies	Id-Al Adha (religious holiday)
<i>Time</i>	6 hours ahead of GMT. Uzbekistan does not have daylight savings time.	

1.3 Political System

The Republic of Uzbekistan, as it is formally known, declared its independence from the Soviet Union on 31 August 1991, and Independence Day is celebrated every year on 1 September. It is a presidential republic with a unicameral legislature, although there are proposals to transform it into a bi-cameral body in 2004. Relevant legislation on a bicameral legislature was adopted at the end of 2002 on the basis of a referendum which was held in January 2002. The President is Islam Karimov who was elected in 1991, re-elected by referendum in 1996 and again re-elected in 2000. The Prime

Minister, currently, Utkur Sultanov, is appointed by the President. The Parliament (*Oliy Majlis*) has 250 deputies who are elected for five-year terms.

A party system has been developing since independence from the Soviet Union. Although there are a number of political parties, groups and various movements, the country's largest party is the Popular Democratic Party (PDP).

1.4 Economic Structure

The largest sector in Uzbekistan is agriculture, which generated 32.9% of the GDP in 1999 according to World Bank data. Most agricultural output and much of the light industrial output are related to cotton production. Cotton is produced throughout the country, with the largest production areas in Dzhizak, Surkhandarya, Fergana, Bukhara, Syrdarya, Karakalpakstan and Kashkadarya provinces. Cotton production has declined steadily in recent years to under four million tons per year. Gold production is the country's second largest export earner, accounting for around 32.8% of export earnings. Most gold is mined at the giant Muruntau gold mine in Navoi province. The mining industry also produces significant amounts of silver and copper. Overall, industry accounted for 24.5% of the GDP in 1999. Most industry is low value added. A car factory in Andijan assembles South Korean cars, while an aircraft factory in Tashkent assembles passenger and cargo planes in cooperation with Russian and Ukrainian companies. The rest of the country's industry is largely concerned with making agricultural machinery and some agricultural processing.

Share of Branches in the Gross Domestic Product*

BRANCH	% of total
Agriculture and Forestry	28.0
Industry and Construction	20.8
Trade	9.3
Transport and Communication	6.5
Others, including services	35.4
Total	100.0

* Source: The Economist Intelligence Unit, Uzbekistan Country Report, March 2001.

1.5 Regional Structure

Given the country's highly centralized form of decision-making, Uzbekistan's 12 provinces, the city of Tashkent and the autonomous Republic of Karakalpakstan have little political power. The 12 provinces and Karakalpakstan are divided into 163 regions. The President appoints a *khokim* for each province, a prefect with considerable powers. Karakalpakstan has its own head of the Government, who is subordinate to the President of the country.

2. ESTABLISHING A LEGAL PRESENCE

2.1 Representative Offices and Branches

A representative office or a branch of a foreign legal entity represents the interests of a foreign company in Uzbekistan. A representative office is a subdivision of a foreign legal entity and is not entitled to conduct business activity generating income in Uzbekistan. A representative office acts on the basis of a “Regulation” (similar to a charter or by-laws), and is managed by an individual authorized by the parent company under a power of attorney. A branch is a subdivision of a foreign legal entity, which may fulfill all or part of the functions of its parent company, including business activity generating income. A branch is formed in essentially the same manner as a legal entity and is subject to the same formation restrictions (e.g., minimum capitalization) as are applicable to a legal entity with foreign ownership.

2.2 Uzbek Legal Entities

The following types of commercial legal entities may be formed under Uzbek law:

- joint stock companies;
- limited liability companies and additional liability companies;
- general business partnerships and limited business partnerships; and
- business associations of enterprises (unions, concerns, consortiums, etc).

2.3 Joint Stock Companies

2.3.1 General

A joint stock company (JSC) is a legal entity which provides its shareholders with limited liability to the extent of value of their shareholding. Shareholders who have not fully paid for their shares bear joint and several liability for the JSC’s obligations within the limits of the unpaid portion of the value of their shares. A JSC may be either open or closed. The minimum number of founders of an open JSC is unrestricted, while a closed JSC may be formed by not less than three persons. Shareholders of an open JSC may freely dispose of their shares without the consent of other shareholders. An open JSC may have a public subscription for shares and freely sell them in compliance with the

Joint Stock Company Law. At the same time an open JSC may have a closed subscription for shares except in cases where such closed subscription is limited by the company charter and by the Joint Stock Company Law.

Shares in a closed JSC may only be distributed among its founders or another predetermined group of people. The number of shareholders in a closed JSC may not exceed 50. Otherwise, the company must be transformed into an open JSC within six months. The transfer of shares in a closed JSC is restricted and shares may not be offered to the public. Shareholders in a closed JSC must first offer any shares they wish to sell to the other shareholders or to a JSC itself, as provided for in the company charter.

2.3.2 Charter Capital

The charter capital of a JSC comprises the nominal value of the company's shares acquired by the shareholders. All shares must have the same nominal value. The nominal value of preferred shares distributed may not exceed 20% of the company's charter capital. The minimum charter capital of an open JSC may not be less than 500 times the minimum monthly wage (MMW),* whereas the minimum charter capital of a closed JSC may not be less than 200 MMW. (As of 31 January 2003, the MMW is 4,535 Soum or approximately USD 5 at the official Central Bank exchange rate). In case the MMW changes, the amount of charter should be treated the same way, either increased or decreased accordingly. The charter capital may be decreased by decreasing the nominal value of shares or by reducing the total number of shares issued (buy-out and cancellation), or increased by increasing the nominal value of shares or by issuing new shares.

2.3.3 Shares

Shares in a JSC may be named shares or bearer shares. Each of these may be either preferred or common. The nominal price of a share may not be less than 100 Soum.

Preferred shares give their holders the priority right to receive dividends and other rights as stipulated in the Joint Stock Company Law. Shares of a closed JSC may be the named type only.

* As of 1 February 2003 the minimum charter capital requirement for an open JSC will be fixed at the amount in Soum equivalent to not less than USD 50,000 calculated at the official Central Bank exchange rate.

A shareholder must pay for its shares in full within one year after the registration of the JSC. Payment for shares may be made in cash, securities and other assets or property rights having monetary value. Shares acquired or bought out by the JSC do not carry voting rights and, therefore, are not taken into account during the counting of votes, and no dividends are paid on them. Such shares must be sold by the JSC within one year after their acquisition; otherwise, the charter capital must be decreased by the amount of such shares.

The forms and terms of distribution of shares (open and closed) are specified in the company charter. Shares must be paid for at their fair market value, whereas during the founding of the JSC, shares are paid for by the founders at their nominal value. A JSC may issue securities which may be further converted into shares pursuant to the terms stipulated in the company charter and/or in subsequent resolutions of the General Meeting of Shareholders. All shareholders must be registered in the shareholders' register, which must indicate the amount of shares issued, their nominal value, and the category of registered securities belonging to shareholders.

2.3.4 General Meeting of Shareholders

The supreme management body of the JSC is the General Meeting of Shareholders (GMS). The meeting is held once a year. A meeting of shareholders other than the annual meeting is considered to be an extraordinary meeting.

All exclusive issues of high priority connected with the company's management, administration, business policy, corporate structure, financial aspects, elections and some other issues are within the sole competence of the GMS, as stipulated in the Joint Stock Company Law and in the company charter.

Decisions within the exclusive competence of the GMS may not be delegated for resolution by any other body of the JSC. For most decisions, a simple majority vote is sufficient (more than 50%). A supermajority vote (75%) at the GMS is required for certain matters as stipulated in the Joint Stock Company Law.

The GMS is valid if shareholders together holding more than 60% of the votes register and attended. The GMS may be attended either by a shareholder or its proxy. Any shareholder may at any time replace its proxy, and/or attend such meeting in person.

2.3.5 Supervisory Board

The Supervisory Board exercises overall management of the JSC with the exception of those issues referred by the Joint Stock Company Law and the company charter to the exclusive competence of the GMS. If there are less than 30 holders of voting shares, the company charter may stipulate that the functions of the company's supervisory board be performed by the GMS. In this case, the company charter must designate a particular person or body within the JSC which has the exclusive authority to make decisions on holding the GMS.

The Supervisory Board handles issues of lower priority, mainly covering the implemented, preparatory, financial, and security market policies, as well as some supervisory and structural functions.

Election of the Supervisory Board and its chairman, the procedure for calling and holding Board meetings, and also other issues related to the Board's operation must be specified in the company charter and/or in internal regulations.

2.3.6 Executive Body

The Executive Body manages the company's day-to-day activities through a director (chief executive officer), or a directorate (collective executive body). The director or directorate acts in the name and on behalf of the JSC within the scope of authority delegated by the GMS or Supervisory Board or as provided for in the company charter. The director and members of the directorate may incur joint and several liability for their actions.

2.3.7 Audit Commission

The Audit Commission and/or an external auditor monitors the financial activity of the company. Its competence is governed by the Joint Stock Company Law and the company charter. The Audit Commission's activity is specified in a regulation approved by the GMS.

The Audit Commission may conduct an audit at its own initiative, upon a decision of the GMS or the Supervisory Board, or at the request of shareholder(s) holding in the aggregate more than 10% of the voting shares.

Members of the Audit Commission cannot simultaneously be members of the Supervisory Board, or hold any other positions in the management bodies of the JSC. Shares belonging to members of the Supervisory Board or to persons

holding positions in the management bodies of the JSC cannot be voting shares while electing members of the Audit Commission.

For confirmation and auditing of the annual financial reports and accounts of the JSC, an external auditor not connected with the company or with its shareholders is required.

2.4 Limited Liability Companies

2.4.1 General

A Limited Liability Company (LLC) is a company established by one or more individuals or legal entities with a charter capital divided into shares whose size is determined by the foundation documents. In contrast to a closed JSC, shares in an LLC are not securities. The foundation documents of an LLC established by two or more entities are the foundation agreement and the company charter. If an LLC is established by one entity, the foundation document of an LLC would be the charter only.

The participants in an LLC are not liable for its obligations, and they bear the risk of losses connected with the company's activities within the limits of the value of their personal contributions. Participants in the company which have not paid their contributions in full are jointly and severally liable for its obligations to the extent of the unpaid part of the contribution of each of the participants. The liability of the company is limited to the extent of its assets.

2.4.2 Charter Capital

The charter capital cannot be less than 50 times the minimum monthly wage. Each of the participants must pay at least 30% of the declared charter capital contributions at the time of registration of the company, confirmed by a bank document, with the reminder to be paid within one year.

A change in the value of the contributed property and additional contributions of participants approved by the supreme body of the company in cases stipulated in the company foundation documents may not change the size of the participants' shares in the company's charter capital.

2.4.3 General Meeting of Participants

The supreme management body of an LLC is the General Meeting of Participants (GMP). The GMP has exclusive powers with respect to those specific issues stipulated in the Uzbek *LLC Law* as being within the competence of the supreme management body. It mainly covers the business, financial, management and structural issues of the company. The meeting is convened not less than once a year. Participants jointly holding not less than 10% of votes have the right to demand an extraordinary GMP at any time and for any reason.

For most decisions a simple majority of participants present at the meeting is sufficient. A supermajority vote (75%) is required for issues of high priority related to amending the charter, increasing or reducing the charter capital, and approving the company's reports and plans.

An LLC has a director (chief executive officer) or a directorate (collective executive body) carrying out the day-to-day management of the company. A director or the members of the directorate are elected at the GMP. The scope of the authority of the directorate is specified in the foundation documents of the company.

Unlike a JSC, there is no mandatory requirement for establishing a Supervisory Board in an LLC. However, an LLC may have a Supervisory Board, if this is provided in the foundation documents. In addition, the company is prohibited from issuing shares as securities.

2.4.4 Audit Commission

The Audit Commission (or an auditor) has the right to monitor the financial activity of the Director (or Directorate) and members of the Supervisory Board (if available) of an LLC. The charter of an LLC may provide for an external auditor not connected with the company or with its shareholders. An LLC with more than 15 participants must have an Audit Commission (or an Auditor). The members of the Supervisory Board (if available), the director or the directorate can not be selected as members of the Audit Commission (or as an Auditor) of an LLC. The members of the commission are normally selected from the participants of a GMP. Nevertheless, a person not connected with the company and with the participants of an LLC may also be selected as the member of the Audit Commission or as an auditor of an LLC. The number of members of the Commission is specified in the company charter. The Audit

Commission normally confirms the annual report and accounts of an LLC before their approval by a GMP.

As with a JSC, there must be an external auditor for confirmation and auditing of the annual financial reports and accounts of an LLC.

2.5 Additional Liability Companies

2.5.1 General

An Additional Liability Company (ALC) is a company established by one or more individuals or legal entities with a charter capital divided into shares whose size is determined by the foundation documents. As with an LLC, an ALC cannot issue shares as securities. The foundation documents of an ALC are the same as in an LLC: the foundation agreement and the charter/or only the charter if an ALC is established by one person.

An ALC has the same organizational structure as an LLC. The main difference is in the liability of the participants. Participants in an ALC have broader liabilities in comparison to an LLC, the liability of which is limited to the value of the participants' contributions. In contrast to an LLC, the foundation documents of an ALC may provide for the joint and several liability of its participants to be a multiple of their capital contributions. The multiple must be the same for all participants. If one of the participants becomes insolvent (bankrupt), liability for the company's obligations are distributed among the other participants in proportion to their contributions unless the company's foundation documents provide otherwise.

2.6 Partnerships

2.6.1 General Business Partnerships

A General Business Partnership (GBP) is a partnership whose partners, in accordance with the agreement concluded between them, engage in business activity on behalf of the partnership and are jointly and severally liable for its obligations with all their assets.

2.6.2 Limited Business Partnerships

A Limited Business Partnership (LBP) is a partnership in which there are one or several limited partners (contributors) who do not participate in the

partnership's business and who bear the risk of losses connected with the partnership's activities only to the extent of their contributions. In addition, an LBP has partners who are engaged in business on behalf of the partnership and are liable for the obligations of the partnership with all their assets.

A person may be a partner in only one GBP and only one LBP.

A partner in a GBP cannot be a partner in an LBP. A partner in an LBP cannot be a contributor in the same partnership or be a partner in another GBP.

2.6.3 Charter Capital and Foundation Documents

The foundation document of both types of partnerships is the foundation agreement. The charter capital of GBP or an LBP can not be less than 50 times the minimum monthly wage.

2.6.4 Partners' Rights

A partner may leave either a GBP or an LBP established for a fixed term only under reasonable grounds, as defined in the foundation agreement and may leave the partnership established for a non-fixed term with at least three months advance notice.

Only the partners manage the operations of either a GBP or an LBP, as defined by the foundation agreement of the partnership.

3. FOREIGN INVESTMENT REGIME

3.1 Forms of Investment

A foreign investor is entitled to engage in investment activity in Uzbekistan by means of:

- equity participation in companies, banks, trusts, cartels, associations, and other enterprises established together with Uzbek resident legal entities and individuals. In practice, this provision may only be applied to joint ventures that involve Uzbek legal entities;
- establishment of an enterprise wholly owned by a foreign investor;
- portfolio participation through the acquisition of bonds, shares and share certificates, and other securities issued by Uzbek companies or the Government; and
- total or partial acquisition of tenure rights, rights to immovable property including land use rights, concession rights effecting the use of subsoil resources, etc.

3.2 Applicable Laws

Below is a list of codes, laws and decrees of significance to foreign companies in Uzbekistan:

- Civil Code of the Republic of Uzbekistan, dated 1 March 1997 (“Civil Code”) (as amended)
- Tax Code of the Republic of Uzbekistan, dated 24 April 1997 (“Tax Code”) (as amended)
- Law “On Limited Liability and Additional Liability Companies,” dated 6 December 2001, (“Uzbek LLC Law”)
- Law “On Business Partnerships,” dated 6 December 2001
- Law “On Joint Stock Companies and the Protection of Shareholders’ Rights,” dated 26 April 1996 (“Joint Stock Company Law”) (as amended)

- Law “On Foreign Investments,” dated 30 April 1998 (“Foreign Investment Law”) (as amended)
- Law “On Guarantees and Measures for the Protection of Foreign Investors’ Rights,” dated 30 April 1998 (“Foreign Investor Guarantees Law”)
- Law “On the Contractual and Legal Basis for the Activity of Business Entities,” entered into force 1 November 1998
- Law “On Investment Activity” dated 24 December 1998
- Decree of the President “On Additional Measures to Stimulate the Foundation and Activity of Enterprises with Foreign Investment,” dated 31 May 1996
- Decree of the President “On Additional Incentives and Privileges Granted to Enterprises with Foreign Investments,” dated 30 November 1996 (as amended)
- Decree of the President “On Measures to Regulate the Circulation of Foreign Currency Cash in the Republic,” dated 24 October 1996
- Resolution of the Cabinet of Ministers “On Measures of Unification of Exchange Rates on Internal Currency Market,” dated 25 October 2001
- Resolution of the Cabinet of Ministers “On Measures for Organization of Operation of the Over-The-Counter Currency Market,” dated 10 July 2001 (as amended)
- Resolution of the Cabinet of Ministers “On Measures for Further Liberalization of the Currency Market,” dated 22 June 2001 (as amended)
- Resolution of the Cabinet of Ministers “On Cancellation of Licensing and Measures for the Improvement of Import and Sale of Consumer Goods on Internal Market of the Republic of Uzbekistan,” dated 20 August 2002 (as amended)
- Resolution of the Cabinet of Ministers “On the Additional Measures for the Attraction of Foreign Investments into Foundation of Joint Ventures,” dated 11 October 2000 (as amended)

- Regulation on the Procedure of State Registration and Record of Business Entities (entered in force 1 March 2001), approved by Resolution of the Cabinet of Ministers On the Improvement of System of State Registration of Business Entities, dated 22 August 2001
- Resolution of the Cabinet of Ministers “On Measures of Further Denationalization and Privatization of Enterprises with Attraction of Foreign Investors in 2001-2002,” dated 9 March 2001 (as amended)
- Resolution of the Cabinet of Ministers “On Additional Measures for the Implementation of the Program on Denationalization and Privatization with Attraction of Foreign Investment,” dated 26 March 2002 (as amended)
- Resolution of the Cabinet of Ministers “On the Forecast of the Main Microeconomic Indications and Parameters of the State Budget for 2003,” dated 30 December 2002
- Decree of the President “On Measures for Cardinal Increase of Share and Importance of Private Sector in Uzbekistan Economy,” dated 24 January 2003

3.3 Enterprises with Foreign Investment

Uzbekistan has adopted a fairly standard set of foreign investment legislation, with the principal laws being the *Foreign Investment Law* and the *Foreign Investor Guarantees Law*, both dated 30 April 1998. It should be noted that the Foreign Investment Law requires all foreign currency expenses of enterprises with foreign investment to be paid out of their own foreign currency receipts and other permitted sources of foreign currency. Both the Foreign Investment Law and the Foreign Investor Guarantees Law state that a foreign investor shall be entitled to freely repatriate its earnings, but in practice it can be difficult to implement this right. The latter law provides also that companies with foreign participation are protected from detrimental effects of subsequent legislation for a period of ten years from the moment of investment.

Uzbekistan very strongly favors major foreign investments and discourages small and medium sized foreign investors from investing in the country. In order to promote the state policy of self-sufficiency, Uzbekistan's foreign investment regime particularly favors foreign investors who produce goods in

Uzbekistan which can be exported or which replace goods that would otherwise be imported.

In an effort to attract such investors, the Presidential Decree “*On Additional Incentives and Privileges Granted to Enterprises with Foreign Investments*” was enacted. It provides reduced tax rates, tax holidays and other benefits for particular enterprises with foreign investment which meet certain requirements. Only those companies which meet the requirements set forth below are considered to be an enterprise with foreign investment (EWFI) and are subject to state registration with the Ministry of Justice:

- the size of the charter capital of the company must be at least the equivalent of USD 150,000;
- one of the founders must be a foreign legal entity; and
- the share of foreign investment must comprise not less than 30% of the charter capital.

In addition, if an EWFI receives over 60% of its revenues from the sales of products which it has produced or the sale of its services, then it will be deemed a production enterprise with foreign investment (PEWFI). PEWFIs receive a variety of tax, customs and other benefits and incentives. Some of the tax privileges are as follows:

- seven-year Profits Tax holiday - if the foreign investment is made in the project(s) listed in the Government Investment Program;
- three-year Profits Tax holiday from the date of commencement of production and further 50% Profits Tax reduction for two years - if the company is established in a rural area;
- five-year Profits Tax holiday from the date of commencement of production – if more than 25% of the products are goods for children;
- two-year Profits Tax holiday from the date of commencement of production - if the company’s paid-up charter capital is 50% or more foreign owned and the company produces export-oriented and import-replacing products;

- 20% Profits Tax - if the company's paid-up charter capital is 50% or more foreign owned and ranges from USD 300,000 to USD 1,000,000;
- 16% Profits Tax - if the company's paid-up charter capital is 50% or more foreign owned and equals USD 1,000,000 or more;
- 10% Profits Tax – if the company is specialized in production of goods for children, women's hygienic goods and art-craft goods;
- 50% Profits Tax reduction – if the company exports 30% or more of the total sales volume of its products (works, services);
- 30% Profits Tax reduction – if the company exports from 15% to 30% of the total sales volume of its products (works, services);
- exemption from Property Tax – if the company's exports constitute 50% or more of the total volume of sale of its own products (works, services);
- 50% Property Tax reduction – if the company's exports represent 25% to 50% of the total sales volume of its products (works, services);
- 30% Property Tax reduction – if the company's exports represent 15% to 25% of the total sales volume of its products (works, services);
- exemption from the Land Tax for two years; and
- exemption from payroll limitations.

By a special resolution of the Cabinet of Ministers a company with foreign investment may be granted extra tax exemptions depending upon the importance of the company's project to the Government, the volume of the investment to be made, and other factors.

An investment program of 20 million or more requires the consent of the Cabinet of Ministers.

Note: Only enterprises registered with the Ministry of Justice are considered to be PEWFIs, and have all the incentives granted by the Government exclusively for production enterprises with foreign investment.

3.4 Registration of Legal Entities

3.4.1 USD 150,000 Charter Capital Requirement

The procedures for registration (formation) of a legal entity that has foreign ownership differentiate between entities with at least USD 150,000 of charter capital and entities with less than USD 150,000 of charter capital. The former (i.e. an EWFI) must be registered with (formed at) the Ministry of Justice of Uzbekistan, while the latter (i.e., a company with foreign participation, CWFP) must be registered with (formed at) the local authorities - local khokimiyats.

In addition to the USD 150,000 charter capital requirement, an EWFI must have at least one foreign legal entity as a founder, and the share of foreign investment must be not less than 30% of the charter capital. Even if the company has USD 150,000 charter capital, but does not meet these two requirements, the company would be treated as a CWFP.

In order to improve procedures of state registration of companies in Uzbekistan, including companies with a share of foreign capital, the Cabinet of Ministers approved the Regulation *“On the Procedure of State Registration and Record of Business Entities”* in 2001. This regulation provides a unified checklist of registration documents irrespective of an amount of foreign share capital in the company.

In addition, this new regulation provides for the concept of registration under which most of post-registration steps are carried out by the registering body simultaneously with the corporate registration of companies. In particular, the registering body takes care of the following registrations at the moment of a company's corporate registration:

- (1) tax and statistic agencies;
- (2) pension, employment, social insurance and road funds; and
- (3) obtaining a permit from the Ministry of Internal Affairs or its divisions for the company stamp and seal (the “Parallel Registration”).

Finally, unlike the former registration regulations, this regulation places rules for the registration (formation) of a CWFP with local khokimiyats (rules have not been in place for the registration of a CWFP since 1997).

3.4.2 Registration of a Legal Entity

In order to register an EWFI with the Ministry of Justice or a CWFP with the local khokimiyat, the following documents must be submitted to the Ministry of Justice or its territorial divisions or to the district khokimiyat:

- application for state registration;
- two notarized originals of the foundation documents (either the charter and/or the foundation agreement, subject to corporate form of the company). Notarization of the foundation documents is not required for joint-stock companies transformed from state enterprises;
- receipt for a deposit into Soum and hard currency temporary savings accounts as the initial payment of 30% of the charter capital, or an opinion of the State Committee for Science and Technique showing an evaluation of the intellectual property to be contributed to the charter capital, in case the initial payment to the charter capital is made in the form of an intellectual property contribution. For an EWFI the deposit must be equal to at least USD 45,000 and for a CWFP the deposit must be equal to at least the minimum charter capital requirement, as established for local companies without any share of foreign capital);
- receipt for payment of the state registration fee:
 - joint ventures and their branches and subsidiaries must pay an amount equal to five times the minimum monthly wage plus an amount equal to USD 500;
 - wholly-owned foreign companies and their branches and subsidiaries must pay an amount equal to USD 2,000;
 - the fee must be paid in the national currency at the official Central Bank rate. The receipt confirming official exchange of currency must be presented to the registering body.
- an extract from the trade register of the foreign founder and a reference letter of good credit standing from a bank, notarized and legalized in the country of origin by the consulate of the local Uzbek Embassy, or if there is no Uzbek Embassy, by the Ministry of Foreign

Affairs of the country of origin and by the Embassy or Consulate of the country of origin in Uzbekistan, with further approval by the consular department of Uzbek Ministry of Foreign Affairs;

- certificate on registration of company's name issued by relevant khokimiyat departments;
- three samples of sketches of the company's stamp and seal; and
- a letter from the landlord or a certificate of ownership confirming the office address of the foreign enterprise.

The legal expertise (review of documents by the registering body), the state registration and the Parallel Registrations of the company must be completed within 12 working days from the date of submission of the registration documents.

The registering body registers the company foundation documents (the charter and/or the foundation agreement). The sealed and signed Certificate of Registration and registered originals of the foundation documents are issued by the registering body and given to the company, including documents confirming the Parallel Registrations.

The company acquires the rights of a legal entity and is deemed to exist after state registration with the registering body (i.e., Ministry of Justice or its territorial divisions, or the local khokimiyat).

In case of change of the company's office address, the company within ten days must send a notification letter to the registering body, tax and statistic agencies.

In case of changes in or amendments to the company's foundation documents or its reorganization, the company must be re-registered. In case of amendments to the foundation documents, within one week the company must submit to the registering body an application for re-registration with all the necessary documents attached. A re-registration fee in the amount of 100% of the initial registration fee must be paid. However, if these changes or amendments to the company's foundation documents do not cause any changes in the registered tax and state registration number codes, a re-registration fee in the amount of 50% of the initial registration fee is paid. Change of an office address does not require any payment of a re-registration fee.

3.5 Annual Investment Program

Every year the Government enacts an Investment Program listing the projects deemed to be of the greatest importance to the Uzbek economy. These usually are limited to multi-million dollar investment projects involving PEWIs. Contrary to common belief among foreign investors, inclusion into the Investment Program does not automatically entitle a particular project to tax, currency conversion or other incentives (except that a PEWI that is included in the Investment Program is automatically entitled to a seven-year profits tax holiday). Rather, inclusion in the Investment Program simply makes a project eligible to receive incentives at the discretion of the Government.

The Government may grant the following types of special incentives to investors participating in the Investment Program: (i) temporary tax holidays; (ii) a favorable tax regime; (iii) accelerated amortization of assets; (iv) customs preferences, etc. To obtain these benefits, a participant in the Investment Program should obtain a special government resolution.

4. EXCHANGE CONTROLS AND CURRENCY RESTRICTIONS

4.1 Exchange Controls

The import and export of foreign currency is strictly regulated. Preferential rights to conversion of Soum into foreign currency can be granted by the Central Bank of the Republic of Uzbekistan to some businesses which produce, import or export commodities. Preferential treatment is also given to entities paying interest and principal on loans, or paying dividends to foreign shareholders. At present there are significant delays and administrative difficulties in converting Soum to foreign currency for remittance abroad. However, the Government of Uzbekistan has taken several steps toward liberalizing the country's harsh currency controls, the most important being the recognition of the existence of the black market hard currency exchange and the unification of two government exchange rates: the official and the so-called "OTC exchange rate".

Uzbek legal entities and individuals may not hold bank accounts outside Uzbekistan without permission from the Central Bank. All settlements within Uzbekistan must be made in Soum, except payments made by non-residents for certain services in hard currency and some other limited instances established by the Government.

4.2 Multiple Exchange Rates

There are three exchange rates for the Soum. The first, the official exchange rate is traded through the Republican Currency Exchange. The second, the OTC exchange rate, is used by authorized banks at the OTC currency exchange. The third, the black market rate, is illegal, even though the black market represents a large portion of day-to-day currency trading in Uzbekistan. Following are the rates of exchange for 31 January 2003:

Official	960.38	Soum = USD 1
OTC	960.38	Soum = USD 1
Black Market	1180-1220	Soum = USD 1

In practice the Currency Exchange and authorized banks are the only legal sellers of foreign currency (which includes the currencies of the CIS countries). The official rate is fixed once a week at Currency Exchange auctions and is the

rate used for tax, custom and other official purposes (such as Ministry of Justice registration of companies with foreign investment or tax payments by non-residents). The official rate is also the rate at which holders of preferential conversion rights can convert Soum into hard currency. Thus, the price they pay for hard currency is far less than the market value of that hard currency.

The OTC exchange rate was introduced on 1 July 2000. It is the rate used for some types of mandatory sale of 50% hard currency receipts, for servicing hard currency credits, for import of equipment, spare parts, raw materials and services as well as for repatriation of profits, dividends and other income of foreign investors. It is also the rate used for purchases or sales by individuals at exchange booths throughout the country (e.g., at airports and hotels).

4.3 Cash Settlement Restrictions

Settlements between businesses may be performed only through bank transfers, regardless of the type of business. The right of companies to retain petty cash is severely limited. Cash may be withdrawn from bank accounts only for specified purposes, including the payment of wages or benefits and allowances for business trips.

The disbursement of cash by authorized banks for salary and wage payments is strictly regulated. For new companies the annual payroll is limited by industry averages, except PEWFIs whose payroll is not controlled by the state.

4.4 Mandatory Conversion of Hard Currency

Most enterprises are required to convert 50% of their gross foreign currency income arising from commercial activities related to the export of goods, work or services into Soum at the OTC exchange rate within five days of receipt of the income.

The income to be converted may be reduced by specific foreign currency expenses including transportation, insurance, customs duties, commissions, and interest on bank loans and goods and services related to the production of exports. An exemption is provided for reinvested revenues resulting from an increase in export or the export of scientific and technological equipment.

The mandatory conversion requirement is applicable to all Uzbek companies, including joint ventures, as well as representative offices and branches of foreign companies. For the purpose of mandatory currency conversion, all

monies entering an entity's bank account from export operations are deemed receipts subject to this conversion requirement.

Enterprises with 50% foreign investment share in the charter capital producing consumer goods are exempt from mandatory conversion of their hard currency receipts for a period of five years from the moment of corporate registration. Also, a foreign company's hard currency contribution to the charter capital of an Uzbek joint venture or a foreign company's transfer to the account of its Uzbek representative office to pay for expenses will not be subject to mandatory conversion. Legislation does not mandate conversion of hard currency local earnings (non-export) in those exceptional circumstances in which payment for goods or services provided in Uzbekistan can be made in hard currency. But it is recommended that the appropriate authorities be contacted in order to verify the absence of such a conversion requirement to a particular situation.

Mandatory conversion of hard currency receipts has become a significant source of income to the state and correspondingly a significant loss to foreign investors. Because the Central Bank purchases hard currency at the OTC exchange rate, which is roughly 80% of the black market rate, mandatory conversion can be viewed as a tax at the rate of about 20% on one-half of hard currency receipts.

4.5 Converting Local Currency into Hard Currency

In addition to obtaining hard currency means through authorized banks, when and if available, certain production-oriented enterprises are eligible to apply for a preferential right to convert Soum into hard currency. There are three basic categories of production-oriented enterprises with this right.

The first category is the PEWFI, described above in "Enterprises with Foreign Investment." A PEWFI is given preferential rights to convert local currency into hard currency at the Currency Exchange. In order to obtain hard currency, a PEWFI's authorized bank must submit an application for currency conversion to the Currency Exchange, which is the body from which the PEWFI's bank actually receives the hard currency. The application must specify the exact uses of the hard currency; it cannot be an application for hard currency to be used for general unspecified purposes. A preferential right to convert currency is granted on a case-by-case basis. However, before submitting the application, the PEWFI's bank must give to the Commission its expert opinion on the application for review by the Commission. If the Commission's decision is favorable, the application and the Commission's

decision together with certain related documents are submitted to the Currency Exchange, where the Soums are actually converted into hard currency.

The Commission's decision is based upon the amount of the country's hard currency reserves, the country's anticipated needs for those reserves and the merits of the particular application. There is no assurance that the Commission's decision will be favorable, no matter how strong the merits.

The EWFI is the second category of enterprises that may apply for a preferential right of conversion if it produces export-oriented or import-substituting goods or services.

The third category of enterprises that may apply for this preferential right is any production enterprise-exporter that purchases raw materials, parts or technological equipment for its own needs, regardless of whether or not there is foreign investment in the enterprise.

The preferential right application procedure for enterprises in the second and third categories is substantially the same as for a PEWFI.

4.6 Additional Restrictions

4.6.1 Levy on Purchase of Hard Currency

A 5% levy was imposed on the purchase of freely convertible currency effective 8 January 1999. All legal entities and individuals are subject to this levy when they purchase foreign currency except when made from budgetary sources, for repayment of credits under sovereign guarantees, when made at the OTC exchange rate, and when made at exchange booths. The levy is imposed on, and is paid from, the amount in Soum being paid for the foreign currency. The Currency Exchange and authorized banks will withdraw this levy at the time of purchase. This levy will be paid to the state and usually is in addition to the 1% commission charged by a bank.

4.6.2 Tax on Repatriation of Income of Permanent Establishments

Foreign companies that have a permanent establishment in Uzbekistan should be aware of a further possible charge. The Uzbek Tax Code provides that in addition to payment of its income (profit) tax obligations, a permanent establishment of a non-resident legal entity must pay a 10% tax on all income (profit) that it transfers abroad.

5. TAXATION

5.1 Principal Taxes

Presently, the main governing law in taxation is the *Tax Code* which entered into force on 1 January 1998 and has been amended several times since then. The present Uzbek tax structure of most interest to foreign investors is the following:

State Taxes:

- Corporate Profits (Income) tax;
- Individual Income tax;
- Value-added tax;
- Excise tax;
- Subsoil use tax;
- Ecology tax; and
- Water use tax.

Local Taxes and Collections:

- Property tax;
- Land tax; and
- Miscellaneous taxes and collections.

5.2 Corporate Profits (Income) Tax

5.2.1 Status of Taxpayers

Legal entities founded or registered in Uzbekistan (and those registered overseas, but the head enterprise of which is in Uzbekistan) are deemed to be residents of Uzbekistan for tax purposes. They are taxed on their profits gained from Uzbekistan and overseas sources.

Non-resident legal entities operating in Uzbekistan through a permanent establishment pay tax on profits from sources in Uzbekistan associated with the permanent establishment, reduced by the amount of deductions envisaged by the Tax Code in relation to such profit.

Non-resident legal entities' profit not associated with a permanent establishment is taxable at source according to aggregate income without deductions, if the source of profit is located in Uzbekistan (see Withholding Taxes).

5.2.2 Rates

The general profits tax rate is 20% for 2003. Certain entities including legal entities producing agricultural products, legal entities manufacturing children's goods and handicrafts and legal entities with foreign investment (particularly production enterprises with foreign investment) receive preferential tax treatment. (See Section 3 above, for a discussion of the tax treatment of production enterprises with foreign investment).

Repatriation of profits of the permanent establishment of a non-resident legal entity is subject to a 10% tax.

5.2.3 Withholding Taxes

Uzbekistan source income not connected to the activities of a permanent establishment in Uzbekistan is subject to withholding taxes. Such income is taxed at source, irrespective of whether payment was made within or outside Uzbekistan, and the taxable base is comprised of the aggregate income without deductions. However, the Tax Code contains inconsistent provisions concerning whether Uzbekistan source income relates only to activities performed within Uzbekistan or also relates to activities performed outside Uzbekistan but paid for from Uzbekistan.

Income Source	Withholding Tax Rate
Dividend and interest	15%
Insurance premiums insurance paid for or reinsurance of risks	10%
Telecommunication and freight activities	6%
Royalties; rental; incomes from services provided, including management services, consulting fees, and other incomes, except those already taxed	20%

Withholding tax rates may be reduced by applicable international treaties (see Section 5.7 below).

5.2.4 Taxable Base

In calculating the profits tax, the taxable base is comprised of total revenues from sales of products, works or services, and other income, reduced by the

amount of costs and expenditures incurred in the revenue-generating activity, including the following:

- the amount of VAT deductions, excise tax, property tax, land tax, subsoil use tax, ecology tax, water use tax and customs duties;
- the amount of interest payments on short-term bank credits, and on credits of any other crediting-financial institutions, excluding the amount of any penalty due; and
- expenditures on employee salary (excluding such expenditures effected by banks, insurance companies, video saloons, audio units, auctions, casinos, money awards games, lotteries of non-state organizations, concert performances), etc.

The most significant items of non-deductible expenditures for tax purposes are:

- advertising, entertainment and business travel expenses in excess of statutory limits;
- payments on non-bank and long term bank loans and all overdue interest;
- payments on bank loans that exceed the discount rate of the Central Bank; and
- losses resulting from misappropriation of funds where perpetrator has not been apprehended, and some other expenditures.

5.2.5 Reductions

It is possible to reduce taxable profit in the following ways:

- contributions to environmental and charitable funds (up to 1% of taxable profit);
- costs allocated to the development, expansion and reconstruction of production (up to 30% of taxable profit); and
- by implementing environmental measures (30% of the costs).

5.2.6 Losses From the Sale of Fixed Assets and Securities

Losses from the sale of fixed assets used in business activity for more than three years shall be deductible from aggregate income.

Losses arising upon the sale of securities shall not be deductible from aggregate income.

5.2.7 Depreciation

For profits tax purposes, the maximum depreciation rates are as follows:

Group of Fixed Assets	Depreciation Norm
Cars, motorized tractor technology for use on roads, special tools, inventory, and accessories	20%
Computers and computer equipment	20%
Trucks, buses, specialist vehicles and trailers	15%
Machinery, industrial, forging and pressing, construction and agricultural machinery and equipment	15%
Office furniture	15%
Rail, sea, river and air transport	8%
Power and heating electric and turbine equipment	8%
Electricity transmission and communications devices	8%
Pipelines	8%
Buildings, constructions and structures	5%
Depreciable assets not included in the other groups	10%

5.2.8 Declarations and Payments

The financial year is a calendar year for tax purposes. Legal entities should file a tax declaration and financial statements with the tax authorities by 15 February of the following year.

Most companies are required to make monthly payments on account of their tax liability, although only quarterly payments are required by enterprises with foreign investment.

Representative offices of non-resident legal entities should also file a tax declaration and activity report with the tax authorities by 15 February of the following year.

5.3 Individual Taxation

5.3.1 Status of Taxpayers

Individuals who are physically present in Uzbekistan for 183 days or more in any calendar year, or during any other period of up to 12 months, are considered for tax purposes to be residents of Uzbekistan. Resident taxpayers are subject to tax on income gained from sources of their activity both within Uzbekistan and abroad. Non-residents, however, are taxed only on their income from sources within Uzbekistan.

Generally any benefits provided are taxable based on their market value. Uzbek legislation also specifically includes in taxable compensation any additional payments to resident foreign individuals (e.g., allowances for cost of living, hardship, children's education, food, family vacations, etc.).

All income including benefits is taxable in Uzbekistan unless it is specifically exempt. The list of exempt income includes alimony, severance pay and pension income. In the case of resident foreign nationals, additional exemptions are available including reimbursement for business travel expenses, rent allowances and the costs of running a company car which are reimbursed by the employer.

5.3.2 Rates

Effective 31 January 2003, the maximum rate of the Individual Income Tax was decreased from 33% to 32%. Taxable income is currently taxed at the following rates:

Taxable income (less the non-taxable minimum wage)	Tax (%)
Up to 5 times the minimum wage	13
5 (+1 Soum) to 10 times the minimum wage	22
10 (+1 Soum) and more times the minimum wage	32

Note: The amount changes regularly as the non-taxable minimum monthly wage is frequently revised. As of 31 January 2003, the minimum monthly wage is 4,535 Soum.

The income tax rate for women whose employment involves work in especially laborious and harmful conditions shall not exceed 20%.

5.3.3 Obligatory Contributions Payable to the Social Funds

The table below shows the main contributions which must be made to the Social Funds.

Pension Fund contributions:	
Payable by an employer	35% of employee's gross salary and 0.7% of the receipts from products sold or works and services rendered by that enterprise;
Payable by an employee	2.5% of salary
Employment Fund	1.5% (payable by an employer)
Trade Union Federation Council	0.7% (payable by an employer except representative offices)

A foreign national employed in Uzbekistan is not subject to Pension Fund contributions. Contributions to compulsory home country state social security funds are tax-deductible for foreign nationals employed in Uzbekistan.

5.3.4 Declaration and Payments

A resident individual who has received income not from his principal place of work (whether from sources in Uzbekistan or abroad) has to submit a declaration of aggregate annual income to the tax agency at his place of permanent residence by not later than 1 April of the year following the accounting year. Individuals who in the past calendar year have only received income from their employment at their principal place of work (service, study) do not have to submit declarations of the income received in that year to the tax agencies.

A foreign individual must submit a declaration of anticipated income within one month of arriving in Uzbekistan. Should the foreign individual terminate his activity within the calendar year and leave Uzbekistan, a declaration of the income actually received must be submitted no later than one month before his departure.

An individual engaged in business activity must duly submit a declaration of income and expenditure:

- within five days of the end of the first month from the date on which such income arose; and
- by 15 January of the year following the accounting year.

5.4 Other State Taxes

5.4.1 Value Added Tax

Value added tax (VAT) is a tax on the value added in the course of the production, sale and import of goods (work and services). VAT is payable on turnover related to the sale, export and import of goods, work and services. The VAT rate is 20%.

VAT on imports and exports is discussed in Section 10 below.

5.4.2 Excise Tax

A list of goods subject to Uzbekistan's excise tax and the applicable rates are determined by the Cabinet of Ministers.

The excise tax is not levied on the export of goods, work and services, except to those countries that impose the same tax regime on goods, work services exported to Uzbekistan.

Excise tax on exports and imports is discussed in more detail in Section 10 below.

5.4.3 Subsoil Use Tax

The Cabinet of Ministers establishes the rates of the subsoil use tax. The rates vary depending on the type of subsoil.

5.4.4 Ecology Tax

The ecology tax is imposed at the rate 1% of the manufacturing cost or price of products, work and services. Legal entities which manufacture products, work and services are subject to this tax.

5.4.5 Water Use Tax

The Cabinet of Ministers fixes the rates for the water use tax. Legal entities that use water in their activities for production and technical needs are subject to this tax.

5.5 Local Taxes and Collections

Both legal entities and individuals are subject to numerous local taxes that are not deductible for profits (income) tax purposes. Many are insignificant except for the administrative burden.

5.5.1 Property Tax

Corporate property tax is imposed at the rate of 3%. The taxable base includes all fixed and intangible assets.

Property of representative offices of foreign legal entities are exempt from property tax.

Property of individuals is taxed at rates fixed by the Cabinet of Ministers.

5.5.2 Land Tax

The land tax is paid at rates fixed by the Cabinet of Ministers.

5.5.3 Miscellaneous Taxes

Marginal rates of local taxes, charges and fees levied by the government authorities of the autonomous Republic of Karakalpakstan, the oblasts (regions) and the City of Tashkent are as follows:

Taxes	Marginal rates
Tax on use of gasoline and diesel	30 Soum per 1 liter
Tax on use of gas	30 Soum per 1 kg
Infrastructure development tax	8% of the net profit remaining with the enterprise

Licensing fee on the right to trade spirits and tobacco	5 MMW per one month of trade
Charge for the right to trade	3.5 MMW per one month of trade
Charge for registration of legal entities and individuals engaged in entrepreneurial activity	5 MMW

5.6 Penalties

The following financial penalties may be applied for breaching the tax legislation:

- individuals engaged in business activity failing to register with a tax agency must be fined five times MMW;
- in the event of concealment of income (profit), the entire amount of income (profit) concealed must be recovered from the taxpayer, plus a fine of the same amount;
- for not filing, or a late or incomplete filing, a 1% penalty per day, but not more than 10% of the tax due;
- for engaging in types of activity without a license, all income (profit) gained from such activity shall be recovered, plus a fine of the same amount; and
- for each day of delay in paying taxes and fees, a penalty of 0.07% must be calculated until the date of payment inclusive.

Entities not registered with the tax authorities in a timely manner shall be subject to the following sanctions:

- if activities were performed for any period up to thirty days, fifty times MMW, but not less than 10% of income; and
- if activities were performed for more than thirty days, one hundred times MMW, but not less than 50% of income.

If a taxpayer commits several breaches of tax legislation, financial sanctions shall be applied separately in respect of each breach.

5.7 Tax Treaties

As of 31 January 2003, double taxation treaties between Uzbekistan and 37 countries are signed and the treaties with 33 countries are in effect. Those countries, and the dates of signing and entering into force of the treaties, are listed below:

Country in which Payer is Resident	Date of signing	Date of entering into force
Austria	14 July 2000	1 August 2001
Azerbaijan	27 May 1996	2 November 1996
Belarus	22 December 1994	11 January 1997
Belgium	14 November 1996	8 July 1999
Canada	17 June 1999	14 September 2000
China	3 July 1996	3 July 1996
Czech Republic	2 March 2000	15 January 2001
Egypt	21 September 1999	—
Finland	9 April 1998	7 February 1999
France	22 April 1996	—
Georgia	28 May 1996	20 October 1997
Germany	7 September 1999	14 December 2001
Greece	1 April 1997	15 January 1999
India	29 July 1993	25 January 1994
Indonesia	27 August 1996	11 November 1998
Israel	15 September 1998	9 March 1999
Italy	21 November 2000	—
Japan (a)	18 January 1986	18 January 1986
Kazakhstan	12 June 1996	21 April 1997
Korea	11 February 1998	25 December 1998

Kyrgyzstan	24 December 1996	17 March 2000
Latvia	3 July 1998	23 October 1998
Luxembourg	2 July 1997	1 September 2000
Malaysia	6 October 1997	10 August 1999
Moldova	30 March 1995	28 November 1995
Netherlands	18 October 2001	27 May 2002
Pakistan	22 May 1995	12 September 1996
Poland	11 January 1995	29 April 1995
Portugal	11 September 2001	—
Romania	6 June 1996	17 October 1997
Russia	2 March 1994	27 July 1995
Thailand	23 April 1999	21 July 1999
Turkey	8 May 1996	30 September 1997
Turkmenistan	16 January 1996	27 November 1996
Ukraine	10 November 1994	13 July 1995
United Kingdom	15 October 1993	10 June 1994
Vietnam	28 March 1996	16 August 1996

Notes:

- (a) Uzbekistan honors the USSR double tax treaty with Japan.

A foreign party to an Uzbek joint venture or a foreign legal entity that is entitled to receive full or partial tax exemption under a Double Tax Treaty must submit to the Uzbek tax authorities official confirmation of the place of a permanent location of such entity in the country that concluded relevant double tax treaty with Uzbekistan. This confirmation can be submitted to tax authorities both before the payment of tax and within a year of payment of tax.

6. EMPLOYMENT

6.1 Introduction

Employment of nationals and foreign citizens in Uzbekistan is regulated by the *Labor Code*. Labor relations are regulated by collective agreements and individual employment contracts. Employment contracts must meet the standards prescribed by Uzbek law. Foreign and local companies may hire employees directly, without using employment or recruitment agencies.

6.2 Work Books

Uzbek nationals must provide an employer with a workbook containing personal details and a record of their past and current work history. The workbook is issued for determining the amount to be paid from the State Social Insurance Fund for an employee's temporary illness or disability and for determining an employee's rights to a state pension. If an employee does not have a workbook, the employer must provide him with a new one within five days of commencing employment.

6.3 Probationary Period

An employment contract may set the probationary period, which shall not exceed three months.

6.4 Minimum Wage

Wages may not be lower than the minimum monthly wage. As of 31 January 2003, the minimum monthly wage is 4,535 Soum (approximately USD 5 at the official exchange rate).

6.5 Working Week

The regular working week is 40 hours. Overtime work may be allowed only with the employee's consent. There are certain categories of work where overtime work is not permissible. Overtime work may not exceed four hours within two days and 120 hours per year. Overtime work must be compensated at a rate of at least 200% of the employee's regular wage.

6.6 Holidays

There are nine official public holidays. The minimum paid annual leave is 15 working days.

6.7 Sick Leave

An employer is not obliged to pay for an employee's leave of absence due to temporary illness or disability. The employee is paid from the State Social Insurance Fund in amounts varying from 75% to 100% of the employee's wage.

6.8 Maternity Leave

Paid maternity leave is for a minimum of 70 days prior to birth and 56 days after birth (up to 70 days in certain cases). The maternity leave is paid by the employer, at the employee's normal salary level, but it is effectively reimbursed to the employer through deduction from the contributions due to the State Social Insurance Fund from the employer.

6.9 Cost of Employment

See Section 5.3 above for a description of the mandatory Social Fund contributions for employees and employers.

6.10 Foreign Workers in Uzbekistan

Companies with foreign employees in Uzbekistan must obtain a foreign labor license from the Agency on Foreign Labor Migration Issues (the "Agency"). A licensed company must also obtain a work permit (confirmation) from the Agency for each foreign employee.

The Agency should issue a foreign labor license within 30 days from the date of submission of all required documents.

The procedure for issuing work permits for foreign employees is similar to the procedure for obtaining foreign labor licenses.

A foreign labor license and/or employee's work permit are valid for no more than one year. The fee for a foreign labor license is 10 times the minimum monthly wage (45,350 Soum). There is no fee for an employee's work permit.

Foreigners working in representative offices are excluded from the foreign labor license and work permit requirements. But each foreigner working in a representative office must obtain an individual accreditation card from the Agency for Foreign Economic Relations.

7. REAL PROPERTY

7.1 General Provisions

The fundamental laws governing matters related to real property and real property rights are the *Constitution of Uzbekistan*, adopted 8 December 1992, the *Law on Property in the Republic of Uzbekistan*, dated 31 October 1990, as amended, and the *Land Code*, dated 30 April 1998, as amended.

An owner of real property at his own discretion may possess, use, and dispose of that property, as well as the rights to the objects of ownership in his possession. The objects of ownership in Uzbekistan are: land, subsoil, movable and immovable property, intellectual rights, money, securities, etc.

7.2 Limitations on Ownership of Land

The ability to own land (i.e., to have the right to possess, use and dispose of land) is very limited in practice in Uzbekistan.

Legal entities and individuals (including foreigners) may own the land plots beneath small trading and service facilities (e.g., small shops). Individuals (both Uzbeks and foreigners) also may own apartments and houses, including the underlying land plot. Uzbek and, in certain cases, foreign citizens may own land plots for personal farming, gardening and dacha construction.

Although Uzbek Land Code provides a possibility for legal entities (including foreign legal entities) to hold land plots in ownership, in practice, ownership of the land plot beneath a medium sized or large enterprise is not permitted, unless there is a Cabinet of Ministers' Resolution or President's Decree authorizing to do so. At the date of this publication, the only exception is available for diplomatic representations. Under the Presidential Decree "*On Additional Measures for the Improvement of Activity Conditions of Diplomatic Representations and International Organizations in the Republic of Uzbekistan*," dated 14 November 1995, diplomatic representations may own land in Uzbekistan; but they may do so only for the construction of diplomatic representations' buildings and the construction of residences for heads of diplomatic representations.

Instead of full ownership to land, the enterprise or individual owner (Uzbek or foreign) of the enterprise typically is granted permanent or temporary land use rights. A permanent land use right includes the right to possess and use the

land, but not the right to dispose of it. The state is the ultimate owner of the land subject to permanent use rights. A temporary land use right is essentially the same as a permanent land use right, except that it can be given only for three to ten years. The land use rights of the seller of a structure are transferred along with any transfer of ownership of the structure.

The Law on Foreign Investments states that foreign investors are entitled to acquire ownership rights to facilities in the commerce and service sectors, and to residential premises, together with the land plots on which they are situated, as well as the rights of possession and use of land (including on a lease basis) and natural resources. Land may be leased to foreign investors on the basis of an agreement with the Cabinet of Ministers, usually for a period of not less than ten years.

7.3 Securing Obligations

The legal right to mortgage (pledge) real property rights as security for the mortgagor's obligations exists in Uzbekistan, but the relevant legislation is very limited and inconsistent and the practice of doing so is largely untested.

Uzbekistan's Civil Code permits a debtor to mortgage both a building and his interest in the underlying land. It also permits an entire enterprise or other property complex (including both movable and immovable property) to be mortgaged as a whole. After-acquired property also may be mortgaged. The Civil Code further states that the mortgage of a building or construction shall be permitted only with the simultaneous mortgage of the underlying land plot.

It should be noted that the Land Code conflicts with the foregoing rights to mortgage land. It states that a mortgage of land by the possessors and users of land is invalid, although it specifically permits the mortgage of a land plot lease. The Land Code does not prohibit the mortgage of land by the owner, but as noted above the ability to own land in Uzbekistan is very limited.

8. CONCESSIONS AND PRODUCTION SHARING AGREEMENTS

8.1 Concession Activity

Pursuant to the *Law on Concessions*, dated 30 August 1995, a concession is a permit issued on behalf of the state to a foreign investor, allowing the latter to engage in a specific type of business activity relating to property, land, and subsoil on the basis of a concession agreement.

Despite the fact that the land and subsoil of Uzbekistan are the exclusive property of the state, in cases of strategic necessity, importance, and economic expedience for the country, the state may assign the rights to possess and use such property to a concessionaire, at the same time reserving the exclusive right to dispose of the concession property.

Under law, the supreme state agency authorized to act as the subject of concession-related relations at law is the Government of Uzbekistan, which may in its turn authorize government agencies to act on behalf of the Government in concession-related issues.

8.2 Production Sharing

The long-awaited Law “*On Production Sharing Agreements*” (“PSA Law”) was signed by the President of Uzbekistan on 7 December 2001 and became effective on 9 January 2002.

The PSA Law aims to regulate relations arising from the conclusion, enforcement and termination of a production sharing agreement (PSA) between the government and an investor with respect to the search, exploration and exploitation of oil, gas and other mineral resources in Uzbekistan.

Under a PSA, the government grants, on a compensable basis and for a definite term, the exclusive rights to search, explore and exploit mineral resources on an indicated subsoil site.

Under the PSA Law, in exchange for relief from some types of taxes, the investor agrees to give the state a share of the oil that it produces. The investor may pay the state in products or in the form of proceeds from actual sales. The state's share of the oil consists of a royalty, which is based on a percentage of gross production, and a portion of “profit oil”. Profit oil is defined as the oil

produced in excess of the compensation amounts given to the state and the investor, as well as subsoil use fees (i.e., royalties and bonuses).

The PSA Law provides following important guarantees for an investor:

- the ownership right to its share of profit oil and the right to export such share freely, without quotas;
- a special legislative “stabilization” clause, providing that if the commercial terms of the PSA become less favorable as the result of subsequent Uzbek legislation, the terms of the PSA will apply. However, this provision does not apply to changes in law relating to safety standards for equipment and work, protection of the subsurface and the environment or health measures; and
- the right to submit disputes to international arbitration.

The PSA Law subjects an investor to profits tax, land tax, tax on use of water resources and a one-time paid fee (bonus) and regular (royalty) fees for subsoil use. In addition, although the Law stipulates that an investor is exempt of all other Uzbek taxes, fees and payments, it is not clear whether this includes exemption from payments to employee social funds.

9. ACTIVITIES SUBJECT TO LICENSING

Many activities are subject to licensing in Uzbekistan. Oliy Majlis Resolution No. 222-II *"On the List of Types of Activities Subject to Licensing,"* dated 12 May 2001 and Resolution No. 236 of the Cabinet of Ministers *"On Measures for the Implementation of Law of the Republic of Uzbekistan 'On Licensing of Certain Types of Activities'"* dated 28 June 2002 are the principal laws in this field. The table below lists the activities which these laws require to be licensed.

It should be noted that a number of other types of important activities are also subject to licensing requirements (or other government approvals) in accordance with legislation specifically regulating those activities. Examples include banking, import/export activities (discussed in Section 10 below) and certain construction activities.

Activities Subject to Licensing	State Licensing Authority
Development, production, repair and sale of arms and ammunition, means of protection, military equipment and components and instruments, unless used for other purposes, as well as special materials and equipment for their manufacture	Cabinet of Ministers
Development, production, transport and sale of explosives and toxic substances or articles using the above	Cabinet of Ministers
Production and sale of means of protection against biological and chemical weapons	Cabinet of Ministers
Research and development activities in the area of use of ionizing radiation sources, including design, construction, production and service of technological equipment for ionizing radiation sources and means of protection against radiation	Cabinet of Ministers
Extraction, production, excavation, processing, use, storage, service, transport, neutralization, utilization and disposal of ionizing radiation sources	Cabinet of Ministers

Design, construction, operation, and repair of gas main pipelines, oil and oil products' pipe lines	Cabinet of Ministers
Design, construction, operation and repair of bridges and tunnels	Cabinet of Ministers
Design, construction, operation and repair of defense objects	Cabinet of Ministers
Development of architecture-construction documentation	Cabinet of Ministers
Transportation of passengers and cargo by railway transport on local and international lines	Cabinet of Ministers
Transportation of passengers and cargo by airway transport on local and international airlines	Cabinet of Ministers
Service of aircrafts in airports engaged in rendering air services	Cabinet of Ministers
Performance of aviation works	Cabinet of Ministers
City, commuter, inter-city and international transportation of passengers and cargo by automobile	Cabinet of Ministers
Transportation of passengers and cargo by river transport means	Cabinet of Ministers
Sale of oil products (gasoline, aircraft gasoline, extra gasoline, diesel, aircraft kerosene, black oil, heating oil, oil bitumen, including technical oil and lubricants), excluding pre-packed in factory packs (except sale of oil products through gas and oil change stations)	Cabinet of Ministers
Production, sale and lease of measuring devices	Cabinet of Ministers
Production of electric power by power plants connected to the integrated power system	Cabinet of Ministers
Liquidation (destruction, recycling, discharge) and processing of surplus military equipment	Cabinet of Ministers
Production, repair and sale of hunting and sporting firearms and blank arms (except for national knives)	Ministry of Interior of the Republic of Uzbekistan

Production, refining and sale of oil, gas and gas condensate	Cabinet of Ministers
Production of precious and rare-earth metals and precious stones	Cabinet of Ministers
Production and processing of recycled resources and waste containing precious metals and precious stones	Cabinet of Ministers
Construction and operation of risky and potentially dangerous projects	Cabinet of Ministers
Medical activity	Ministry of Public Health
Storage, sale (distribution), transportation, development, production and destruction of drugs, psychotropic substances and precursors, including use of drugs, psychotropic substances and precursors in scientific and training purposes, for production needs, as well as in medicine and veterinary	Ministry of Public Health
Activity related to cultivation of drug-containing crops	Ministry of Interior
Pharmaceutical activity	Ministry of Public Health
Organization of gaming houses and lotteries	Cabinet of Ministers
Insurance activity of insurers and insurance brokers	Ministry of Finance
Evaluation activity	State Property Committee
Exchange (stock) activity	State Property Committee
Establishment of customs warehouse	Customs Committee
Establishment of duty free shop	Customs Committee
Establishment of warehouse under the "free warehouse" customs regime	Customs Committee
Banking activity, foreign currency operations, issuance of securities	Central Bank
Activity of pawnshops and credit unions	Central Bank

Design, repair, erection, adjustment and servicing of fire control automation means, guard and fire control alarm systems	Ministry of Interior
Production of films and TV programs, popular science or animation, documentary and chronicle programs	Cabinet of Ministers
Copying and sale of cinema and video programs	Cabinet of Ministers
Video product rental	Cabinet of Ministers
Design, construction, operation and service of local, intercity and international telecommunications lines	Uzbek Agency on Communication and Information
Design, construction, operation and rendering services of mobile and personal radiotelephone communication	Uzbek Agency on Communication and Information
Design, construction, operation and rendering services of data-transmission network and TV and radio transmission network	Uzbek Agency on Communication and Information
Power research and expertise	Uzbek Agency on Supervision over Power Industry
Professional activity on securities market (activity of investment institutions)	Center on Coordination and Control over Functioning of Securities Market
Production, repair, sale and operation of encryption equipment	Cabinet of Ministers
Veterinary activity	Chief State Department of Veterinary
Attorneys' and notaries' activity	Ministry of Justice
Concert touring inside and outside of Uzbekistan and concert services provided at weddings, jubilees and other celebrations	Entertainment Agency "Uzbeknavo"

Sale of oil products through gas and oil change stations	Council of Ministers of Karakalpakistan, oblast and Tashkent city Khokimiyats
Design, production, copying and sale of records, audio cassettes and CDs	Council of Ministers of Karakalpakistan, oblast and Tashkent city Khokimiyats
Geodesic and cartographic activity	Cabinet of Ministers
Expert examinations of construction projects	Cabinet of Ministers
Repair work at high altitude using industrial alpinism	Cabinet of Ministers
Auditing	Ministry of Finance
Activities of non-state and religious educational institutions	Cabinet of Ministers
Manufacture of jewelry from precious metals and stones	Cabinet of Ministers
Tourism	Cabinet of Ministers
Publishing	Cabinet of Ministers
Production of ethyl alcohol and alcoholic products	Cabinet of Ministers

10. EXPORT AND IMPORT REGIME

10.1 General

Uzbekistan implements a strict import regulation regime. This is due to the Government's strong local export production policy as well as its stringent currency controls.

Licenses are required only for import and export of certain economically essential export items such as precious metals and goods made from precious metals as well as for import and export of potentially harmful and dangerous goods and products including military weapons and uranium.

Import contracts must be registered with the Agency for Foreign Economic Affairs. However, only entities which do not finance their import from their own sources are subject to registration of import contracts. Thus, the two major types of import contracts subject to registration are those which are financed:

- by conversion of Soum into hard currency at the internal currency market; and
- with credits provided by international finance institutions under a guarantee from the Uzbek Government.

Those import contracts that are not subject to registration with the Agency for Foreign Economic Affairs must still be recorded by authorized banks and customs agencies.

Uzbek import-export regulations do not allow advance payments of more than 15% with an aggregate cap of no more than an amount equivalent to USD 100,000 of the cost of an import contract which is subject to registration. Furthermore, the overseas seller's correspondent bank must issue a counter-guarantee letter covering that payment.

10.2 Export Customs Duties

Customs duties were abolished on the export of all kind of goods, work and services from 1 November 1997.

10.3 VAT on Exports

VAT is not imposed on goods exported to countries that do not impose VAT on goods exported to Uzbekistan. With respect to other countries, exports are not exempt from VAT and are taxed at a rate of 20%.

Manufacturers or their official distributors that export their own goods to CIS countries for hard currency are exempt from VAT.

10.4 Excise Tax on Exports

Excise tax is not imposed on excisable goods for export, except where the goods, work or services are sold to states which impose excise tax on goods, work or services exported to Uzbekistan, and except the list of certain goods established by the Government.

Manufacturers or their official distributors exporting their own goods for hard currency are exempt from excise tax.

10.5 Import Customs Duties

Import customs duties are only applicable to the list of goods established by the Government. The customs duties are paid in Soum before or during customs clearance of the goods. The amount of the duties to be paid is calculated on the basis of the contract price. In the absence of a contract, the consignor of goods declares the price.

Examples of rates of import customs duties are:

- Alcohol and cigarettes - 30%;
- Clothing - 30%; and
- Furniture – 10-30%.

Equipment, materials and other current assets brought into Uzbekistan by founders of a company as their in-kind contributions to the company's charter capital are exempt from customs duty. Also property brought into Uzbekistan by an EWF for its own needs and personal property of its employees are exempt from customs duty.

Import customs duties on certain foodstuffs and certain other essential goods imported by legal entities after 1 January 1999 were abolished.

10.6 VAT on Imports

VAT applies to goods and materials imported into Uzbekistan. Generally, VAT on imported goods is 20%.

VAT is paid in Soum before or during customs clearance of the goods. Generally, the taxable base is composed of customs value, customs duties and excise tax (if excise tax applies).

Equipment, materials, work and services imported by legal entities, including non-residents of Uzbekistan, using funds of loans and grants provided by international and foreign governmental financial and economic organizations under treaties (agreements) concluded by Uzbekistan are exempt from VAT.

10.7 Excise Tax on Imports

Excise tax is imposed on certain types of imported goods; the rate varies depending on the type of goods. For instance, import excise tax rate on tobacco products is 50%, on soap – 20% and on cotton fiber – 10%. Excise tax is paid in Soum before or during customs clearance of the goods.

11. PRIVATIZATION

11.1 General Provisions

The primary law governing matters related to privatization of state property in Uzbekistan is the Law *“On Denationalization and Privatization”* dated 19 November 1991, as amended (the “Privatization Law”). The law defines the legal form of the concept of privatization in Uzbekistan, which consists of citizens’ and private legal entities’ acquisition of state-owned facilities or shares in state-owned joint-stock companies. Privatization in Uzbekistan has lagged behind that of a number of other CIS countries. In the first several years following independence only apartments and very small businesses (e.g., shops) were privatized, while nearly all industrial enterprises and other medium sized and large enterprises were kept firmly under state control. However, in late 1998 this policy began to change and the Government began to actively promote the privatization of major enterprises in a number of key sectors of the economy. As noted below under “Opportunities Available to Foreign Investors,” a March 2001 Resolution envisages an ambitious privatization program during 2001 and 2002.

11.2 Facilities Subject to Privatization

The Government of Uzbekistan determines the facilities subject to privatization according to the main directions of the annually approved programs for privatization of state-owned facilities in the current year.

The State Committee of the Republic of Uzbekistan on Management of State Property and Support of Entrepreneurship (the “State Property Committee”) is the key agency involved in the process of privatization of state property. Decisions issued by the State Property Committee within the bounds of its authority are binding upon ministries, departments, concerns, associations, organizations (conglomerations), institutions, organizations, and local government authorities.

11.3 Forms and Conditions of Privatization

Privatization in Uzbekistan may take the following forms:

- transformation of a state enterprise into a collective enterprise, joint stock company, or other business company or partnership; and
- transformation of a state enterprise into a leased enterprise, with the option of subsequent purchase of the leased property.

State property is sold to individuals and legal entities on a competitive basis, at auctions and tenders, and in other ways permitted by the laws of Uzbekistan.

11.4 Limitations on Facilities Subject to Privatization

The Government of Uzbekistan has specified a list of enterprises and pieces of state property that are not subject to denationalization, privatization, and purchase. The list features primarily strategic state-owned facilities that affect national interests.

The Government has also specified a list of facilities subject to privatization that may be privatized or denationalized only by decision of the Government.

Pursuant to the Privatization Law, the following objects are not subject to denationalization and privatization: land, subsoil, flora and fauna, and other natural resources and objects of cultural and historical value.

11.5 Opportunities Available to Foreign Investors

The Privatization Law expressly states that along with citizens and private legal entities, foreign citizens and legal entities and stateless persons residing outside of Uzbekistan have the right to acquire privatized state-owned facilities.

Foreign investors may participate in the privatization process as follows:

Through a sale of:

- shares to a foreign investor in the course of competitive or investment bidding (tenders), auctions at stock exchanges and direct negotiations;
- all or part of an enterprise's shares to one or a group of foreign investors, enabling them to establish joint ventures or enterprises based fully on foreign capital;
- assets of liquidated (bankrupt) enterprises at open competitive bidding with requirements announced in advance of the auction;
- real estate at auctions and via direct sale by tender; and
- competitive sale of state-owned facilities based on investment projects.

By means of:

- investing in state enterprises, increasing the authorized capital and transforming the state enterprise into a state/joint stock form of ownership and selling part of the shares equivalent to the increased charter capital to a foreign investor;
- concession agreements (preferential treatment for enterprises in the mining industry, electric power supply, water supply and service facilities);
- allocation and exchange of shares in privatized state enterprises in investment funds, security companies and investment banks established with the participation of foreign capital; and
- “turn-key” construction by a foreign investor of a new enterprise, where the state holds title to land, or completion of construction of an unfinished structure, where the state holds title to part of the structure.

In March 2001, the Cabinet of Ministers issued a Resolution which envisaged an accelerated and ambitious privatization program. This Resolution plans to privatize about 1202 Uzbek enterprises through 2004. In particular, the Government plans to sell via so-called individual (investment) projects from 25% to 70% of its shares in 38 state enterprises, including major enterprises such as Uzbekneftegas (National Oil and Gas Corporation), Uztelecom, National Bank for Foreign Economic Activities (NBU), “Chkalov Tashkent Aviation Manufacturing Enterprise” (TAPOiCH), Asaka Bank, etc. The Government is also offering majority and full stakes in 510 enterprises to be sold to investors. In March 2002, the Cabinet of Ministers issued another Resolution where it added an additional 751 Uzbek enterprises, mostly minor enterprises, to be privatized.

As of 31 January 2003, none of the major enterprise privatization envisaged by these resolutions have been completed, although preliminary work preparing some of those enterprises for privatization has begun.

12. COURT SYSTEM AND DISPUTE RESOLUTION

12.1 Upper Level Courts

The upper level of the court system consists of: (i) the Constitutional Court, which renders decisions on the constitutionality of acts of the legislative and executive branches; (ii) the Supreme Court, which acts as both a court of first instance and an appellate court for civil and criminal cases and which analyzes court practice and oversees work of the lower level courts; and (iii) the High Economic Court, which has the same functions as the Supreme Court but deals exclusively with commercial cases involving legal entities (foreign and local) and individual entrepreneurs. Judges of the Constitutional Court, Supreme Court and High Economic Court are nominated by the President and approved by a majority vote of the Oliy Majlis.

12.2 Lower Level Courts

The lower level of the Uzbek court system includes: (i) regional, city and district courts; (ii) economic courts; and (iii) military courts. There are also a separate Supreme Court and High Economic Court for the autonomous Republic of Karakalpakstan. Judges of the regional, city and district courts of general jurisdiction are nominated by the Minister of Justice and appointed by the President. Judges of the economic courts are nominated by the Chairman of the High Economic Court and approved by the President.

12.3 Settlement of Economic Disputes

With regard to disputes which arise in connection with foreign investments or related activities, the disputing parties have a choice of the following dispute resolution mechanisms: negotiations, dispute settlement by an Uzbek economic court, or international arbitration in accordance with the rules of international agreements to which Uzbekistan adheres. If a contract between two legal entities (local and/or foreign) is governed by Uzbek law and is silent on the dispute resolution forum, then the regional economic court will hear the dispute upon the petition of one of the parties. The Commercial Procedure Code provides that foreign parties shall have the same procedural rights and duties as Uzbek parties in matters before an Uzbek court. If the parties elect to resolve their dispute in an Uzbek court, they nonetheless may switch to arbitration any time before the court renders a decision. Foreigners typically insist on a contract clause specifying that binding arbitration in a third country will be the exclusive means of resolving disputes.

Uzbekistan is a party to several investment treaties with foreign countries (including the United Kingdom, South Korea and Turkey) that contain dispute resolution clauses.

Uzbekistan has signed and ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (“ICSID Treaty”) of 1965. Thus certain disputes with the Republic of Uzbekistan may be eligible for arbitration under ICSID Treaty auspices.

Uzbekistan also has signed and ratified the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958. However, legislation implementing this treaty has not been adopted. Thus, enforcement in Uzbekistan of a foreign arbitral decision against an Uzbek party may be problematic.

13. LANGUAGE ISSUES

The state language in Uzbekistan is Uzbek.

All state agencies must maintain documentation in the Uzbek language. However, in many instances the state agencies issue or translate documents into other languages (mostly Russian).

Records and data of all organizations and associations should be in the Uzbek language. In practice, the documentation is kept in both Uzbek and Russian.

The general practice in Uzbekistan is that contracts with foreign parties are executed in two languages: Russian and any other language acceptable to both parties. Both versions will have equal force, unless otherwise specified.

Any contract which requires registration or filing with a state agency must be accompanied by a certified translation into Russian or Uzbek if it is not written in one of those languages. However, certain registration documents for the formation of an Uzbek legal entity must be in Uzbek (documents in Russian alone are not acceptable). This fact indicates that there is a strong Government support of the use of the Uzbek language for official documentation, which is slowly leading to a wider use of the Uzbek language.

WORLDWIDE

Europe and Middle East

Amsterdam	Dusseldorf	Paris
Antwerp	Frankfurt	Prague
Bahrain	Geneva	Riyadh
Barcelona	Kyiv	Rome
Berlin	London	St. Petersburg
Bologna	Madrid	Stockholm
Brussels	Milan	Vienna
Budapest	Moscow	Warsaw
Cairo	Munich	Zurich

Asia Pacific

Almaty	Ho Chi Minh City	Singapore
Baku	Hong Kong	Sydney
Bangkok	Manila	Taipei
Beijing	Melbourne	Tokyo
Hanoi	Shanghai	

North and South America

Bogota	Juarez	San Francisco
Brasilia	Mexico City	Santiago
Buenos Aires	Miami	Sao Paulo
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Caracas	New York	Toronto
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Dallas	Porto Alegre	Washington, D.C.
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